

State of Wisconsin Manufacturing Cluster Pilot Project Proposal

Case For Action:

The white paper ***Leveraging Manufacturing Excellence: A Supplier Strategy for Wisconsin*** clearly defines both the economic benefits associated with state support of Original Equipment Manufacturer (OEM) Leveraged Economic Development as well as the risks associated with not having a coherent strategy for maintenance and development of its existing small and medium sized manufacturer base. The State of Wisconsin Manufacturing Cluster is adopting the proposal outlined in that white paper as a central tenet. Demonstration “pilot projects” are needed both to further confirm the various strategies available under this proposal and to better tailor them such that they can be applied more widely and deeply throughout the state. The following proposal outlines one such “pilot project”.

The Gap:

Many small and medium-sized manufacturers do not have the infrastructure necessary to meet OEM performance and support expectations and still maintain or increase profitability. This is due to a number of reasons, including:

- Inertia. Beginning as small job shop producers, many continue to operate as such even though their business has undergone fundamental change.
- Lack of technical expertise. Management is often home grown and/or family, without knowledge of manufacturing and/or collaboration strategies beyond the status quo.
- Lack of manpower. OEM pricing pressure often leads to bare bones supplier staffing. Supplier management is working harder and longer just to maintain day-to-day production, leaving little time for implementation of strategic initiatives.
- Lack of capital. Suppliers who see margin erosion due to OEM price reduction expectations become reluctant to invest further in a diminishing return environment.

The Solution:

OEM channeled state economic development assistance. Such assistance would be focused both on bringing supplier performance up to OEM expectations, i.e. ensuring suppliers are “lean”, and increasing supplier collaboration capability such that they are regarded as a value adding member of the OEM’s *extended enterprise*, i.e. where OEMs source their business with these suppliers based on more than just price.

The extended enterprise model can be a structure for creating mutually beneficial *partnership* relationships. Establishing this type of relationship with their OEM customers is essential to the ongoing viability of small and medium sized manufacturers since it takes them out of the environment where they are competing solely on piece price. Collaboration capability will help firms provide better support to their existing OEM customers while at the same time gain new customers. Forward looking OEMs look to establish such relationships with suppliers of strategic products in recognition that piece price represents only part of overall product life cycle cost for such products.

Discussion:

OEMs have a certain amount of leverage with their suppliers. If a significant customer suggests participation in WMEP supplier development, a supplier is likely to agree to

participate. On the other hand, ongoing supplier participation will result only if the experience is deemed beneficial.

Close OEM/ supplier relationships can be a competitive advantage to both OEMs and their suppliers. To gain a relationship benefit from third-party supplier development support, OEM personnel must remain responsible for the supplier relationship and overall conduct of the supplier development project. In other words OEM leveraged WMEP supplier development should not be seen a "turn key" hand off of responsibility from the OEM to WMEP. OEM involvement in chartering and overseeing of WMEP supplier development is essential. WMEP field agents cannot act as surrogate OEM supply management personnel.

Cost is a major issue with most small and medium sized manufacturers. Since ownership of many of these firms is private, money spent above and beyond normal production requirements is often viewed as coming from someone's "wallet" rather than from a company budget. Removing cost as a barrier to WMEP supplier development access is important. That is the basis for state subsidization of the program.

Pilot Proposal:

The State of Wisconsin Manufacturing Cluster will sponsor a supplier development "pilot project" as follows;

- The pilot would last two years, starting 1 January 2003.
- Participation would be solicited from four forward-thinking OEMs.
- OEMs would each sponsor WMEP supported supplier development with three to four of their small or medium sized Wisconsin suppliers. Criteria for selection of these suppliers will need to be developed. OEM sponsorship implies solicitation of supplier participation and provision of a liaison to assist in establishment of project charters and project oversight.
- The mission of each supplier project will be to first, ensure that the supplier operates in an effective, "lean" manner and second, to ensure that the supplier has the capability to provide "differentiating" value add support to their OEM customers.
- WMEP will submit a budget for the "pilot project" based on the actual number of supplier participants. The Department of Commerce will subsidize (at a rate to be determined) the cost of the WMEP services. The supplier will pay the non-subsidized portion of the WMEP cost.
- Supplier training associated with each project will be provided through the WMEP Supplier Training Program.
- Metrics specific to each supplier situation will be used to measure the impact of each Supplier Project, such as;
 - Change in **As Delivered Quality** (as measured by the OEM customer).
 - Change in supplier **Cost-of-Quality** (COQ) as defined by the American Society of Quality as a percent of supplier Cost-of-Goods-Sold.
 - Change in **On-time Delivery** (as measured by the OEM customer).
 - Change in supplier **Cost-of-Goods-Sold** (CGS).
 - Change in **Supplier Manufacturing Cycle Time** (MCT). MCT is the typical amount of calendar time from when a manufacturing order is created by an OEM customer through the critical path until when the first, single piece of that order is delivered to the customer.
 - Change in **Product Development Lead Time**, from concept to production.
 - Change in Workforce Related Impact such as job skills; wages; number of jobs; etc.
- The impact of the project on the OEM - supplier relationship will be assessed by the Center on Wisconsin Strategy (COWS).